

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR		X		
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO		X		
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		X		
20	D/OEA (M. Meyer)		X		
21					
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SUSPENSE

Date

Remarks

Executive Secretary

6 Jan 85

Date

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

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Executive Registry	
85-	144

January 15, 1985

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MEMORANDUM FOR THE VICE PRESIDENT

THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF
OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

Attached are the minutes of the SIG-IEP meeting held on
January 4, 1985.

CH
Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

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SENIOR INTERDEPARTMENTAL GROUP FOR INTERNATIONAL ECONOMIC POLICY

January 4, 1985

2:30 p.m.

Roosevelt Room

Treasury

Secretary Regan, Chairman

Beryl W. Sprinkel

David C. Mulford

Transportation

Matt Scocozza

Energy

Jan W. Mares

George Bradley

NSC

Robert C. McFarlane

Gaston Sigur

Roger Robinson

OMB

Joseph Wright

Alton G. Keel

OVP

Donald Gregg

Adm Daniel J. Murphy

CIA

David Low

State

W. Allen Wallis

Paul Wolfowitz

USTR

Amb Michael B. Smith

James Murphy

Defense

Comm James D. Cossey

Col William J. Weida

CEA

William Niskanen

Joseph Stone

Agriculture

Daniel Amstutz

Bryant Wadsworth

Cabinet Affairs

Larry Herbolsheimer

Commerce

Secretary Baldrige

Lionel H. Olmer

OPD

Jack Svahn

Roger Porter

President Reagan's Meeting with Prime Minister Nakasone

The Chairman asked Assistant to the President McFarlane to brief the SIG-IEP on the President's meeting with Japanese Prime Minister Nakasone. Mr. McFarlane began by expressing the President's gratitude for the high quality preparatory work. The meeting atmosphere was good in part due to the extensive prior dialogue with the Japanese.

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Nakasone preempted our economic agenda, partly for reasons of face and self-interest. However, with apparent good faith he proposed to address bilateral economic problems.

Having reviewed agency positions regarding possible use of an overall import target, the President had earlier decided to "walk through" the problem with Nakasone. The President noted to Nakasone that despite improvements, including the yen/dollar agreement, the reality of a \$35 billion deficit must be faced. Bilateral negotiations are needed and he proposed a sectoral approach, specifying:

- 1) telecommunications
- 2) electronics
- 3) forest products
- 4) medical equipment and pharmaceuticals

Although he did not mention numerical targets, the President said it would be difficult to resist protectionist pressures from Congress if results were not forthcoming. Necessary for Japan to set standards internally to achieve results.

Mr. McFarlane indicated that Prime Minister responded extensively, accepting in principle the need for more balanced trading relations. He acknowledged the need for broad market access, including the avoidance of new barriers. Nakasone characterized the yen/dollar model as very good and suggested that he would personally make decisions to resolve economic problems.

The Prime Minister noted NTT's desire to purchase U.S. satellites and how Japan would like to purchase Alaskan oil, if restrictions were lifted. The President responded that the Administration would attempt to obtain Congressional concurrence for such sales but that it would be difficult. (Mr. McFarlane asked the SIG-IEP to review the possibility of another approach to the Congress on Alaskan oil.)

When pressed by Secretary Shultz on coal purchases, Nakasone noted that U.S. coal was not competitive because of transportation costs, although they were looking at Mid-west coal to be shipped through the Canal. Economic issues, according to Mr. McFarlane, took up nearly two-thirds of the meeting and concluded when the Prime Minister urged establishment of a framework for follow-up under oversight of Secretary Shultz and Foreign Minister Abe.

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Mr. McFarlane said it is hard to judge the reality of the meeting. However, he saw great measure of personal commitment by Prime Minister to resolve economic difficulties. Admittedly, only the Prime Minister and Abe were in attendance, but the President believes Nakasone absorbed the passion felt on the U.S. side and recognized that economic issues will be an important bellweather for future overall U.S.-Japan relations.

Believes these remarks capture the essence of the meeting. SIG-IEP has the responsibility to coordinate economic issues between the United States and Japan and should begin to follow-up promptly. Would suggest one possibility being an IG, reporting to the SIG-IEP. Such a group should be small, focusing on defining the pace and substance of sectoral negotiations, perhaps looking toward an overall meeting with Japanese counterparts.

Secretary Baldrige asked whether Nakasone had agreed to the sectoral approach and whether he had mentioned any sector besides telecommunications. Mr. McFarlane responded that sense of discussion was implicit acceptance by Nakasone of U.S. position on individual sector talks. Secretary Regan concurred, pointing out the Prime Minister addressed three of the four sectors and that follow up should begin in those sectors. Mr. Nakasone had mentioned medicine; admitted barriers existed for food, lumber and plywood; and had noted that Mitsui was building a satellite with Hughes. Moreover, he hoped that as NTT privatization proceeded, foreign investors would be permitted to buy NTT stock. Assistant Secretary Wolfowitz (State) recounted that Nakasone did not back away from discussion of sectors even though Japanese delegation members had earlier objected to such language.

Under Secretary Wallis (State) believes the President's detailed attention to the issue suggests the U.S. is interested in import flow results, not merely legal changes. Mr. McFarlane concurred that feeling of meeting was real import results are fundamental goals. Secretary Regan noted that no specific goals were enumerated other than getting the \$35 billion deficit down in light of very real Congressional difficulties if it were not. Secretary Regan reported that Nakasone said he was so worried that he established an advisory group labelled M-7, which must report by March. Given uncertainties about group's make up and mandate, he suggested having Ambassador Mansfield investigate. Secretary Regan noted that Nakasone had emphasized: 1) the need for high level contact; 2) his personal involvement; 3) the yen/dollar agreement as a model; and the 4) Shultz/Abe role as a "whip" to keep responsible Ministers moving forward.

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Secretary Regan reported that George Shultz, recognizing his heavy workload, had agreed the SIG-IEP was the proper forum for monitoring follow-up. While the SIG-IEP would not conduct the negotiations, it would serve as a coordinating body. Secretary Regan saw parallels with yen/dollar discussions in which SIG-IEP blessing was obtained, periodic reports were made, and agencies' views sought. He recommended establishing a working group of key departments which would report within ten days or so to the SIG-IEP on specific questions relating to follow-up. He asked Ambassador Mike Smith (USTR), to chair the group composed of USTR, Commerce, State, Treasury, Agriculture, and Roger Robinson in an ex officio role. After some discussion, it was decided this group could look into other negotiating sectors and some thought given to priorities.

Mr. Wallis confirmed Mr. Shultz' view that the SIG-IEP had a central role to play. He noted that there will be a series of meetings, including sub-Cabinet level on March 4 which might offer opportunities for follow-up discussions.

Secretary Regan suggested it might be worthwhile to consider a meeting with the M-7 (depending on what it is) because despite the theatrics, it is important to convince Japanese bureaucrats of their Minister's political commitment. He emphasized the importance of extensive prior private sector contacts in order to develop expertise in selected sectors. Mr. Smith noted that advisory groups are in existence that could be used. Mr. Wallis thought it important to inform Japanese soon on our follow-up plans. Mr. Smith suggested a meeting of the subgroup on Monday afternoon.

There was an extended discussion on Alaskan oil, with Commerce Department noting the possible negative consequences of a major Administration push on this issue for the important Export Administration Act legislation. The Chairman suggested that circumstances had changed because the trade deficit was higher, oil prices lower, and SPR is nearly filled. Given the President's response to Nakasone, he urged Commerce to begin consulting with the Hill.

The Energy Department, working with Commerce, was tasked with reporting to SIG-IEP on whether any strategy for sales was possible without threatening the EAA. Under Secretary Amstutz (Agriculture) suggested that oil be kept separate since we face no market access problem and Assistant Secretary Mulford (Treasury) concurred, feeling we should not give the Japanese an easy claim for market opening. Secretary Regan reported that although VRA did not arise in meetings, SIG-IEP would discuss it in the near future.

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Under Secretary Sprinkel (Treasury) noted six lessons from yen/dollar that might be of use to follow-up effort, including:

- 1) public Japanese commitment to liberalization
- 2) high level negotiations with a minimum number of Ministries .
- 3) development of U.S. expertise on the sector being discussed
- 4) commitment by U.S. officials of whatever time necessary to educate and convince Japanese
- 5) discrete but firm use of leverage, and
- 6) follow-up meetings.

The Chairman concluded by noting agreement that a small working group chaired by Mr. Smith would be established. Its tasks include:

- reviewing possible additional sectors;
- nominating of teams and their leaders;
- considering how to prepare for the negotiations;
- considering how to contact and coordinate with Japanese counterparts;
- assessing usefulness of M-7 meeting;
- developing team objectives and benchmarks to monitor team progress; and
- establishing system for reporting to SIG-IEP.

The Chairman also noted that it was important for the working group to begin meeting promptly and report to the SIG-IEP on its progress. There would be future SIG-IEP meetings devoted to this issue.

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